

International Financial Reporting Standard

Annual Improvements to IFRSs 2012–2014 Cycle

September 2014

BASES FOR CONCLUSIONS – AMENDMENTS

[IFRS 1, 5 & 7 and IAS 19 & 34]

[Related to AASB 2015-1]

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Amendments to the Basis for Conclusions on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraphs BC72B–BC72L and their related heading are added. New text is underlined.

Changes to a plan of sale or to a plan of distribution to owners

- BC72B** The Board received a request to clarify the accounting for a change in a disposal plan from a plan to sell to a plan to distribute a dividend in kind to its shareholders. Paragraph 26 of IFRS 5 was interpreted by some, but not all, as requiring this change to be considered as a change to a plan of sale that would be accounted for in accordance with paragraphs 27–29 of IFRS 5.
- BC72C** In analysing this issue the Board observed that there was no specific guidance in IFRS 5 for the discontinuation of held-for-distribution accounting, when an entity determines that the asset (or disposal group) is no longer available for immediate distribution to owners or that the distribution to owners is no longer ‘highly probable’, in accordance with paragraph 12A of IFRS 5.
- BC72D** The Board observed that IFRIC 17 *Distribution of Non-cash Assets to Owners* amended IFRS 5 by adding paragraphs 5A, 12A and 15A to provide guidance for the held-for-distribution classification. However, this amendment did not provide guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The Board noted that paragraphs 27–29 of IFRS 5 should have been considered for amendment by IFRIC 17 and the fact that they were not amended at the time was an oversight.
- BC72E** The Board observed that the current guidance in IFRS 5 could be read in a way that a change from a plan to sell a non-current asset (or disposal group) to a plan to distribute a non-current asset (or disposal group) automatically results in a change to a plan of sale and that the guidance in paragraphs 27–29 of IFRS 5 should be applied.
- BC72F** The Board observed that, consistently with paragraphs 5A of IFRS 5 and BC60 of IFRIC 17, it was the intention of the Board to have consistent criteria and accounting requirements for an asset (or disposal group) classified as held for sale and for an asset (or disposal group) classified as held for distribution to owners. In addition:
- (a) the conditions required by paragraph 8 of IFRS 5 for a sale to be considered highly probable are similar to the conditions required by paragraph 12A of IFRS 5 for a distribution to owners to be considered highly probable, so they should be accounted for in the same way; and
 - (b) paragraph 5A of IFRS 5 confirms that the classification, presentation and measurement requirements in IFRS 5 that are applicable for an asset (or disposal group) that is classified as held for sale also apply to an asset (or disposal group) that is classified as held for distribution to owners.

- BC72G The Board noted that, on the basis of the current guidance in paragraphs 5A, 8 and 12A of IFRS 5 and the explanations in the Basis for Conclusions on IFRIC 17, the change from being held for sale to held for distribution to owners (or vice versa) when an entity reclassifies an asset (or disposal group) directly from one method of disposal to the other should not be considered a new plan (to sell or distribute). Instead, it should be treated as a continuation of the original plan. This means that an entity moves from one method of disposal to the other without any time lag, so that there is no interruption of the application of the requirements in IFRS 5. This would involve applying the classification, presentation and measurement requirements required for each type of disposal in IFRS 5.
- BC72H Consequently, when an entity reclassifies an asset (or disposal group) directly from held for sale to held for distribution to owners (or vice versa), the Board decided to clarify that such a reclassification shall not be treated as a change to a plan of sale (or distribution to owners) and an entity shall not follow the guidance in paragraphs 27–29 of IFRS 5 to account for this change.
- BC72I In response to the comments received on the Exposure Draft *Annual Improvements to IFRSs 2012–2014 Cycle* (the ‘2013 Annual Improvements Exposure Draft’), published in December 2013, the Board clarified that at the time of the change in the disposal plan, an entity would need to measure the non-current asset (or disposal group) in accordance with paragraph 15 or 15A of IFRS 5, and recognise any write-down in value (impairment loss) or gain for the subsequent increase in the fair value less costs to sell/costs to distribute a non-current asset (or disposal group) in accordance with paragraphs 20–25 of IFRS 5.
- BC72J In response to the comments received on the 2013 Annual Improvements Exposure Draft, the Board further clarified that a change from being held for sale to held for distribution to owners (or vice versa) via a direct reclassification is not a new plan of disposal and does not change the requirements in IFRS 5 to determine whether a sale (or a distribution to owners) is highly probable, in accordance with paragraph 8 (or 12A) of IFRS 5. Consequently, the determination of the 12-month period should not restart when such a change in the method of disposal occurs, but should instead continue to be the same as initially determined by management in its assessment of whether the sale and/or distribution to owners is highly probable. The Board also noted that the period required to complete a sale or distribution to owners can be extended if the conditions in paragraph 9 of IFRS 5 are met. The Board noted that when an entity changes its planned method of disposal via a direct reclassification, it does not restate prior periods to reflect the new method of disposal.
- BC72K To address the lack of guidance in circumstances when an asset no longer meets the criteria for held for distribution to owners (without meeting the held-for-sale criteria), the Board decided to clarify that an entity should cease to apply held-for-distribution accounting in the same way as it ceases to apply the held-for-sale accounting when it no longer meets the held-for-sale criteria.
- BC72L In response to the comments received on the 2013 Annual Improvements Exposure Draft, the Board concluded that the amendments to IFRS 5 are required to be applied, on a prospective basis, to changes in the method of

disposal that occur after the first application of the amendments. This is because this requirement is consistent with the transition requirements provided by IFRIC 17 when it amended IFRS 5 (see paragraph 44D of IFRS 5). The Board considered that prospective application is also required to avoid the potential use of hindsight, because an entity might not have collected all the relevant information at the time of the change in the plan to allow the entity to account for this change.

Amendments to the Basis for Conclusions on IFRS 7 *Financial Instruments: Disclosures*

Paragraphs BC65O–BC65S and BC72A–BC72C and their related headings are added.
New text is underlined.

Application of the disclosure requirements to a servicing contract

BC65O Paragraphs 42A–42H of IFRS 7 require an entity to provide disclosures for all transferred financial assets that are not derecognised in their entirety and for any continuing involvement in a transferred asset that is derecognised in its entirety, existing at the reporting date, irrespective of when the related transfer transaction occurred.

BC65P The Board received a request to clarify whether servicing contracts constitute continuing involvement for the purposes of applying the disclosure requirements in paragraphs 42E–42H of IFRS 7. The question raised was whether paragraph 42C(c) of IFRS 7 excludes servicing contracts from the scope of those disclosure requirements.

BC65Q The Board observed that paragraph 42C(c) of IFRS 7 discusses arrangements whereby an entity retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay the cash flows to one or more entities and the conditions in paragraph 3.2.5(a)–(c) of IFRS 9 are met; ie it is a ‘pass-through arrangement’.¹ Paragraph 42C(c) of IFRS 7 confirms that the cash flows collected to be passed through are not themselves continuing involvement for the purposes of the transfer disclosure requirements. Consequently, the Board observed that the servicer’s obligation to pass through to one or more entities the cash flows that it collects from a transferred financial asset is not in itself continuing involvement for the purposes of the disclosure requirements, because the activity of passing through cash flows does not in itself constitute an interest in the future performance of the transferred financial asset. The Board observed, however, that a servicing contract is generally continuing involvement for the purposes of the transfer disclosure requirements because, in most cases, the servicer has an interest in the future performance of the transferred financial assets as a result of that contract. That would be the case if the amount and/or timing of the servicing fee depended on the amount and/or timing of the cash flows collected from the transferred financial asset. This would be true irrespective of how the servicer receives its servicing fee; ie whether the servicer retains a portion of the cash flows collected from the transferred financial asset as its fee or it passes through all of the cash flows collected and receives its fee separately from the transferee or another entity.

BC65R On the basis of these observations, the Board noted that paragraphs 42C and B30 of IFRS 7 are considered to determine whether a servicing contract gives rise to continuing involvement for the purposes of the transfer disclosure

¹ If IFRS 9 has not been applied early, the equivalent reference is paragraph 19(a)–(c) of IAS 39.

requirements. The Board decided to add guidance to the Application Guidance of IFRS 7 to clarify how the guidance in paragraph 42C of IFRS 7 is applied to servicing contracts.

BC65S During its discussions on this issue, the Board noted that for the purpose of applying the disclosure requirements in paragraphs 42E–42H of IFRS 7, continuing involvement as described in paragraph 42C of IFRS 7 has a different meaning from that used in paragraphs 3.2.6(c)(ii) and 3.2.16 of IFRS 9.² The Board considered, but decided against, making a clarification in respect of this point because it thought that this difference was already clear from the description of continuing involvement in the two IFRSs.

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Effective date and transition (paragraphs 43 and 44)

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BC72A *Annual Improvements to IFRSs 2012–2014 Cycle*, issued in September 2014, amended paragraph B30 and added paragraph B30A of IFRS 7. The Board considered whether the amendment should apply to any period presented that begins before the annual period for which the entity first applies the amendment. The Board noted that paragraph 42E(b) of IFRS 7 requires disclosure of the fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets. Application of the amendment to such a period might therefore require an entity to determine the fair value as at the end of the period for a servicing asset or servicing liability, which the entity might not have previously determined. It might be impracticable for an entity to determine the fair value of such a servicing asset or servicing liability without using hindsight. The Board also noted that paragraph 44M of IFRS 7 provides transition relief by which the entity need not apply the transfer disclosure requirements to comparative periods. Consequently, to avoid the risk of hindsight being applied, the Board decided to require the application of the amendment only to annual periods beginning on or after the beginning of the annual period for which the amendment is applied for the first time. Furthermore, for the same reason, the Board observed that those transition provisions should be available to first-time adopters. The Board has characterised the transition provisions in paragraph 44AA of IFRS 7 as retrospective despite this relief, because entities are required to look back to past derecognition events to determine whether a servicing asset or servicing liability needs to be disclosed.

Applicability of the offsetting amendments to IFRS 7 to condensed interim financial statements

BC72B The Board was asked to clarify the applicability of the amendments to IFRS 7 *Disclosure–Offsetting Financial Assets and Financial Liabilities* (the 'amendments to IFRS 7 concerning offsetting'), issued in December 2011, to condensed interim

² If IFRS 9 has not been applied early, the equivalent references are paragraphs 20(c)(iii) and 30 of IAS 39.

financial statements. It was asked to clarify the meaning of the reference to ‘interim periods within those annual periods’, used in paragraph 44R of IFRS 7. There was uncertainty about whether the disclosures required by paragraphs 13A–13F and B40–B53 of IFRS 7 were required to be included in condensed interim financial statements prepared in accordance with IFRS and, if so, whether those disclosures should be presented in every set of condensed interim financial statements, or only in those interim financial statements presented in the first year in which the disclosure requirements are effective or for which disclosure would be required under the principles in IAS 34 *Interim Financial Reporting*.

BC72C The Board noted that IAS 34 was not consequentially amended upon issue of the amendments to IFRS 7 concerning offsetting and that when the Board intends to require an entity to provide a disclosure in condensed interim financial statements in all circumstances it amends IAS 34. Consequently, the Board decided to amend paragraph 44R of IFRS 7 within the *Annual Improvements to IFRSs 2012–2014 Cycle* in order to clarify that the additional disclosure required by the amendments to IFRS 7 concerning offsetting is not specifically required for all interim periods. However, when considering this amendment, the Board noted that the additional disclosure is required to be given in condensed interim financial statements prepared in accordance with IAS 34 when its inclusion would be required in accordance with the general requirements of that IFRS. IAS 34 requires the disclosure of information in condensed interim financial statements when its omission would make the condensed interim financial statements misleading. The Board noted that in accordance with paragraph 15 of IAS 34 “an entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period”. The Board further noted that in accordance with paragraph 25 of IAS 34: “The overriding goal is to ensure that an interim financial report includes all information that is relevant to understanding an entity’s financial position and performance during the interim period”.

Consequential amendment to the Basis for Conclusions on IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph BC98 and its related headings are added. New text is underlined.
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Short-term exemptions from IFRSs

Disclosures about financial instruments

BC98 Paragraph E4A of IFRS 1 was added as a consequence of *Annual Improvements to IFRSs 2012–2014 Cycle* issued in September 2014. To avoid the potential use of hindsight when this amendment first took effect, the Board decided that first-time adopters should be permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with IFRSs that are included in *Annual Improvements to IFRSs 2012–2014 Cycle*.

Amendment to the Basis for Conclusions on IAS 19 *Employee Benefits*

The footnote to paragraphs BC143(b) and BC150(a) is amended. Deleted text is struck through and new text is underlined.

Defined Benefit Plans: Employee Contributions, issued in November 2013, clarified the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service. See paragraphs ~~BC150A–BC150K~~ BC150G–BC150Q.

Paragraphs BC150A–BC150K are renumbered to paragraphs BC150G–BC150Q. After paragraph BC150, a heading and paragraphs BC150A–BC150F are added and paragraph BC150G is amended. Paragraph BC271C and its related heading are also added. Deleted text is struck through and new text is underlined.

Actuarial assumptions—discount rate: regional market issue

- BC150A The Board was asked to clarify the requirements of IAS 19 to determine the discount rate in a regional market sharing the same currency (for example, the Eurozone). The issue arose because some think that the basket of high quality corporate bonds should be determined at a country level, and not at a currency level, because paragraph 83 of IAS 19 states that in countries in which there is no deep market in such bonds, the market yields at the end of the reporting period on government bonds shall be used.
- BC150B The Board noted that paragraph 83 of IAS 19 states that the currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.
- BC150C The Board decided to amend paragraph 83 of IAS 19 in order to clarify that the depth of the market for high quality corporate bonds should be assessed at a currency level.
- BC150D Some respondents to the Exposure Draft *Annual Improvements to IFRSs 2012–2014 Cycle* (the ‘2013 Annual Improvements Exposure Draft’), published in December 2013, suggested to the Board that it should clarify the objectives and the rationale underlying the selection and use of the discount rate for post-employment benefit obligations. The Board noted that the IFRS Interpretations Committee (the ‘Interpretations Committee’) had already discussed a potential broader amendment relating to the discount rate and, after several meetings, recommended that the determination of the discount rate for post-employment benefit obligations should be addressed in the Board’s research project on discount rates.
- BC150E Some respondents to the 2013 Annual Improvements Exposure Draft suggested to the Board that it should clarify whether the proposed amendment prohibits an entity that operates in a country/regional market in which there is a deep

market for high quality corporate bonds from using only the high quality corporate bonds issued in its own country/regional market. The Board noted that the amendment only clarifies that the depth of the market for high quality corporate bonds should be assessed at a currency level and not a country/regional market level. It does not require that the basket of high quality corporate bonds used to determine the discount rate for post-employment obligations must include all the high quality corporate bonds issued in a currency.

BC150F Some respondents to the 2013 Annual Improvements Exposure Draft expressed concerns about the potential effects of the amendment on countries that have adopted a currency as their official or legal currency without being members of a regional market or part of one with a common currency. They think that the proposed amendment could result in anomalous outcomes in these countries, because a discount rate determined from high quality corporate bonds denominated in a stronger currency could be inconsistent with the inflation rate (and the other assumptions) used in these countries to determine the cost of providing post-employment benefits. The Board noted that this anomaly is not unique to the fact pattern raised. Instead, inflation rates in one location may be different to those in another, even if they are in the same country, state or regional market with a shared currency. In the Board's view, an analysis of the potential effect of the amendment would not provide useful additional information. The Board concluded that the amendment is an improvement that should not be delayed for a narrow range of situations that the Board had already considered in proposing the amendment.

BC150G In 2012, the IFRS Interpretations Committee (~~the 'Interpretations Committee'~~) received two submissions that requested clarification of the accounting requirements set out in paragraph 93 of IAS 19 for contributions from employees or third parties.

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Annual Improvements to IFRSs 2012–2014 Cycle

BC271C Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014, amended paragraph 83. The Board noted that for some entities a full retrospective application of the amendment could be burdensome. Consequently, the Board decided that the amendment should be applied from the beginning of the earliest comparative period presented in the first financial statements in which an entity applies the amendment. Any initial adjustment arising from the application of the amendment should be recognised in opening retained earnings of the earliest comparative period presented.

Amendments to the Basis for Conclusions on IAS 34 *Interim Financial Reporting*

Paragraphs BC7–BC10 and their related heading are added. New text is underlined.

Other disclosures incorporated by cross-reference to information outside the interim financial statements

- BC7** The Board received a request to clarify the meaning of disclosure of information ‘elsewhere in the interim financial report’ as used in IAS 34. The submitter noted that the definition of ‘interim financial report’ in paragraph 4 of IAS 34 was not sufficiently clear with respect to whether the interim financial report covers only the information reported under IFRS (meaning the IFRS interim financial statements) or whether it also includes management reports or other elements in addition to IFRS interim financial statements.
- BC8** The Board observed that presenting information ‘elsewhere in the interim financial report’ in accordance with paragraph 16A of IAS 34 is unclear. In the Exposure Draft *Annual Improvements to IFRSs 2012–2014 Cycle* (the ‘2013 Annual Improvements Exposure Draft’), published in December 2013, the Board proposed to clarify that an entity discloses information elsewhere in the interim financial report when it incorporates disclosures by cross-reference to information in another statement. This information should be available to users of the interim financial statements on the same terms as the interim financial statements and at the same time.
- BC9** Some respondents to the 2013 Annual Improvements Exposure Draft observed that the proposed amendment seemed to suggest that the interim financial report was not a single report and that, instead, it included multiple documents. In response to these comments, the Board observed that in accordance with paragraphs 4 and 8 of IAS 34, an interim financial report is a single report that includes a set of condensed financial statements and selected explanatory notes. The Board further clarified that the amendment is not extending the scope of the interim financial report, because the disclosures required in paragraph 16A(a)–(k) of IAS 34 are part of the selected explanatory notes (and therefore part of the interim financial report), even if they are presented in another statement, such as a management commentary or risk report. If they are not presented, the interim financial report would be incomplete.
- BC10** In response to the comments received on the 2013 Annual Improvements Exposure Draft the Board decided to clarify what was meant by the requirement that disclosures incorporated by cross-reference should be made available ‘on the same terms’ as the financial statements. This means that users of the financial statements should have access to the referenced material on the same basis as they have for accessing the financial statements from where the reference is made.